Chapter 6

Fiscal and Financial Management

Macro Economic Glimpse of Himachal Pradesh

Cradled in the lap of the snow-clad Himalayas, Himachal Pradesh has been designated ‘a special category state’. This categorisation, apart from its financial implication, is well deserved in more ways than one. The diversity of its topography and climate and flora and fauna, the four major river basins and traditional methods of water harvesting and use, scattered habitats in the hills, low density of population, rich heritage of arts and crafts, extensive forest coverage and low availability of land for cultivation, all add up to give Himachal Pradesh a distinctive character of its own. These features account for both its strength and weakness. These, in turn, determine its specific development perspective and the resources required for its realisation. This is the fundamental challenge of fiscal and financial management of Himachal Pradesh.

The vast majority of the people of this state live in villages and agriculture is their main occupation. Along with horticulture, it constitutes the base of the economy of Himachal Pradesh. Protecting the interests of lakhs of its farmers, mostly small and marginal, is a major concern of the state. A considerable portion of the agricultural land is under horticulture. There is low level of irrigation and use of power in agriculture, as most of it is rain-fed. Milk production and animal husbandry provide additional cash support to the farmers. Animal husbandry is particularly important as a source of sustainable employment to the hill folk at their very doorsteps. Agriculture contributes about 22.5 per cent of the State GDP.

Small scale industry dominates the industrial sector which contributes 32 per cent of the GDP. The forest wealth of Himachal has yet to be properly utilised, particularly in the areas of medicines and raw materials for the aromatic industry. Tourism is another area of immense potential, demanding development of new destinations and suitable infrastructure, particularly in terms of transport and hotels. Himachal is rightly known as the hydro-power state. This is another area of development and a major potential source of revenue.

Apart from financial resources, Himachal faces the major challenge of converting its people into human resource, which can effectively contribute to the development of the state, and in the process open up new avenues of employment. To achieve this, the major thrust has to be on education and health care. Himachal has the advantage of high literacy, even among women. The need is to raise the level of education to the kind of technical expertise required by industries. Greater empowerment of the local bodies and the Panchayati Raj Institution, particularly through devolution of financial power, has to be another thrust area to ensure people’s participation in the development process.

People’s participation is one of the instruments to meet the specific challenges facing Himachal’s development and fiscal and financial management is the other. Although, as a special category state, it has assured financial support from the Central Government, its magnitude is now dependent on the state’s own efforts to put its domestic housekeeping in order.

The Government of Himachal Pradesh is conscious of the precarious financial situation of the state *inter alia* the debt stock, which is about Rs 12,000 crore. The government will have to take effective steps to reduce unproductive expenditure, generate new resources, impose financial discipline, accelerate development through promotion of tourism and horticulture and enhance the income of the state through sale of hydro

TABLE 6.1

Overall Financial Position of the State

(Rs. in crore)

Item	*1991-92*	*1995-96*	*1996-97*	*1997-98*	*1998-99*	*1999-00*	*2000-01*	*2001-02*	*2002-03 (RE)*	*2003-04 (BE)*
Total Revenue Receipts	992.42	1754.02	1992.02	2105.45	2311.93	3715.28	3045.57	3615.78	3880.72	4031.97
a) State's Own Resources	257.86	457.98	544.99	624.87	722.48	1627.62	863.24	1089.04	1159.46	1248.68
b) Central Transfers	635.08	1244.58	1391.30	1346.10	1429.19	1897.92	1946.12	2399.07	2507.61	2654.46
c) CSS Grants	99.48	51.46	55.73	134.48	160.26	189.74	236.21	227.67	213.65	128.83
Total Revenue Expenditure	982.56	1904.35	2146.88	2699.14	3334.26	3821.54	4328.75	4576.26	5624.49	5820.24
NET	9.86	-150.33	-154.86	-593.69	-1022.33	-106.26	-1283.18	-860.46	-1743.77	-1788.27
Total Capital Receipts	177.10	411.26	558.12	1034.32	1785.99	1782.99	1421.22	1672.58	2042.81	1835.86
Total Capital Expenditure	260.76	463.43	515.52	773.37	668.49	614.14	588.98	680.15	629.00	742.67
NET	-83.66	-52.17	42.60	260.95	1117.50	1168.85	832.24	992.43	1413.81	1093.19
Total Rev & Capital (NET)	-73.80	-202.50	-112.26	-332.74	95.17	1062.59	-450.94	131.95	-329.96	-695.08

Source: Finance Commission's Documents.

power, for which power projects have to be executed expeditiously. The latest budget does indicate some bold steps in this direction.

Financial Position of Himachal Pradesh

Himachal Pradesh a 'special category state' ever since it was conferred statehood in 1971, it has been dependent for financial viability on transfers from the Government of India. The overall financial position of the state from 1991-92 to 2003-04 (BE) is shown in Table 6.1.

The total revenue receipt (state's own revenue, central transfers and grants) increased about four times from Rs. 992.42 crore in 1991-92 to Rs. 4031.97 crore in 2003-04 (BE).

The corresponding revenue expenditure in 2003-04 (BE) increased nearly six times to Rs.5820.24 crore, leaving a deficit of Rs. 1788.27 crore on revenue account. The growth of revenue expenditure has been faster than the growth in revenue receipts.

The total capital receipt increased from Rs. 177.10 crore in 1991-92 to Rs. 1835.86 crore in 2003-04 (BE). The projected capital expenditure in 2003-04 is Rs. 742.67 crore, leaving a surplus of Rs. 1093.19 crore on the capital account. A net revenue and capital deficit of Rs. 695.08 crore is estimated in 2003-04.

Capital receipts over capital expenditure have shown a net surplus from 1996-97 (Rs. 42.6 crore) rising to Rs. 1093 crore in 2003-04 (BE). The capital receipts include market borrowings and negotiated loans. Normally, capital receipts are utilised to meet capital expenditure for the creation of assets and for development purposes. However, the surplus of capital receipts over the capital expenditure has been used to meet revenue deficits. The capital receipts (borrowings), have been utilised to meet the revenue deficit on committed liabilities.

Revenue Fiscal Deficit (1990-91 to 2003-04)

Despite the status of a special category state and consequently high central transfers, the financial picture of the state depicts a disturbing trend of revenue and fiscal deficit during the period 1990-91 to 2003-04 (BE) as shown in Table 6.2. The revenue balance of the state has been consistently in deficit.

TABLE 6.2

Revenue and Fiscal Deficit (1990-91 to 2003-04)

(Rs. in crore)

	(In Rupees Crore)			*(As % of GSDP)*	
Years	*Revenue Deficit (+/-)*	*Fiscal Deficit (-)*	*Gross State Domestic Product (GSDP)*	*Revenue Surplus/ Deficit (+/-)*	*Fiscal Deficit (-)*
1990-91	-94.84	-338.61	2815	-3.26	-12.03
1991-92	9.86	-99.21	3317	0.30	-2.99
1992-93	-93.08	-361.95	3824	-2.43	-9.47
1993-94	113.63	-240.90	4782	2.38	-5.04
1994-95	-307.92	-696.32	5825	-5.29	-11.95
1995-96	-150.33	-587.87	6698	-2.24	-8.78
1996-97	-154.86	-654.36	7755	-2.00	-8.44
1997-98	-593.69	-1348.79	8837	-6.72	-15.26
1998-99	-1,022.33	-1661.53	10696	- 9.56	-15.53
1999-00	-106.26	- 189.63	12229	-0.87	- 1.55
2000-01	-1,283.17	-1844.79	13329	- 9.63	-13.84
2001-02	-860.46	-1511.34	14717	-5.85	-10.27
2002-03 (RE)	-1,743.76	-2346.18	16041.8	-10.87	-14.63
2003-04 (BE)	-1,788.27	-2502.02	17806.46	-10.04	-14.05

Source: Finance Commission's Documents.

TABLE 6.3

Debt of the State

(Rs. in crore)

Years	Small Savings	Plan Loans	CSS including NCDC	Market Borrowings	Negotiated Loans	GPF/GIS	Non-SLR Loans (PSUs)	Total	Principal Repayment	Cumulative Total
1993-94	75.61	33.57	5.90	23.99	1.84	116.53	0	257.44	62.51	1870.14
1994-95	266.04	33.21	9.20	34.44	1.14	118.03	219.08	681.14	63.41	2487.87
1995-96	134.20	47.72	10.22	40.01	7.57	145.65	84.38	469.75	44.99	2912.63
1996-97	276.09	54.12	15.10	44.00	23.27	129.52	304.34	846.44	52.90	3706.17
1997-98	648.88	64.53	14.13	50.88	41.04	196.59	305.30	1321.35	60.60	4966.92
1998-99	279.29	79.94	21.00	146.02	197.53	270.12	0	993.90	75.62	5885.20
1999-00	68.88	103.99	25.49	229.17	420.31	278.33	767.20	1893.37	95.34	7683.23
2000-01	110.64	104.93	9.21	233.11	422.32	255.20	567.00	1702.41	130.48	9255.16
2001-02	294.15	104.52	12.46	376.21	222.59	206.97	391.00	1607.90	413.08	10449.98
2002-03 (RE)	350.00	139.15	3.90	440.09	331.86	258.98	779.31	2303.29	308.82	12444.45
2003-04 (BE)	324.10	144.53	6.70	340.00	342.00	300.00	1084.00	2541.33	754.94	14230.84

Source: Finance Commission's Documents.

The revenue deficit reached its peak of -10.87 per cent of GSDP in 2002-03(RE) and the fiscal deficit reached an alarming figure of –15.53 per cent of the GSDP in 1998-99. The increasing deficit from 1998 onwards is attributed to the impact of revision of pay and pensions, regularisation of a large number of daily wage workers and higher interest burden on expensive borrowings.

The chronic revenue deficit and fiscal deficit continue to be high at 10.04 per cent and 14.05 per cent of GSDP in the budget estimates of 2003-04. This is unsustainable and requires strategic fiscal restructuring of tax and non-tax base for attracting non-budgetary resources from national and international financial institutions for the development of the state.

Debt of the State

The debt of the state increased to Rs.14230.84 crore in 2003-04 compared to Rs. 12444.45 crore in 2002-03. The growth of the debt of the state from 1993-94 to 2003-04 (BE) is given in Table 6.3.

Interest Expenditure (1991-92 to 2003-04)

The committed expenditure on interest payment, has increased from Rs. 148 crore in 1991-92 to Rs. 1876 crore in 2003-04 (BE). The interest payment as percentage of the state revenue receipts has steadily increased as shown in Table 6.4.

TABLE 6.4

Interest Expenditure

Years	Rupees in Crore: Interest Payments	Rupees in Crore: Revenue Receipts	Interest as a Proportion of Revenue Receipts (%)
1991-92	147.85	992.42	14.90
1992-93	177.12	1052.49	16.83
1993-94	209.65	1465.13	14.31
1994-95	222.60	1306.36	17.04
1995-96	285.25	1754.02	16.26
1996-97	312.98	1992.02	15.71
1997-98	372.07	2105.45	17.67
1998-99	498.02	2311.93	21.54
1999-00	597.34	3715.28	16.08
2000-01	798.29	3045.58	26.21
2001-02	1014.59	3715.80	28.03
2002-03 (RE)	1669.20	3880.73	43.01
2003-04 (BE)	1875.74	4031.97	46.52

Source: Financial Documents of Himachal Pradesh 2002-03.

Tax and Non-tax Revenue

Tax and non-tax and total tax revenue as the percentage of GSDP is shown in Table 6.5.

The tax revenue of the state increased from Rs.192.44 crore in 1991-92 to Rs. 1007.60 crore in 2003-04. Table 6.5 shows the growth of tax, non-tax and total revenue from 1991-92 to 2003-04(BE).

Tax and Non-tax Revenue as Percentage of GSDP

Table 6.6 shows the break-up of tax revenue and non-tax revenue of HP as percentage of its GDP and comparison with the corresponding figures of Punjab and Haryana.

TABLE 6.5

Tax and Non-tax Revenue

(Rs. in crore)

Years	*Tax Revenue*	*Non-tax Revenue*	*Total*	*As % of GSDP*
1991-92	192.44	65.42	257.86	7.77
1992-93	221.67	64.38	286.05	7.48
1993-94	255.74	113.06	368.80	7.71
1994-95	299.45	103.57	403.02	6.92
1995-96	341.52	116.46	457.98	6.84
1996-97	412.11	132.88	544.99	7.03
1997-98	476.16	148.71	624.87	7.07
1998-99	572.03	150.45	722.48	6.75
1999-00	620.26	1007.36	1627.62	13.31
2000-01	728.41	134.83	863.24	6.48
2001-02	915.56	173.48	1089.04	7.40
2002-03 (RE)	921.99	237.48	1159.47	7.23
2003-04 (BE)	1007.60	241.07	1248.67	7.01

Source: Finance Commission's Documents.

TABLE 6.6

Tax and Non-tax Revenue as Percentage of GSDP

(Rs. in crore)

	Tax Revenue			*Non-tax Revenue*		
States	*1999-00*	*2000-01*	*2001-02*	*1999-00*	*2000-01*	*2001-02*
Punjab	7.40	8.44	8.38	5.29	7.22	6.89
Haryana	8.27	8.51	9.07	3.52	3.50	3.64
Himachal Pradesh	**5.07**	**5.46**	**6.22**	**8.24**	**1.01**	**1.18**

Source: Planning Department.

Table 6.6 brings out the fact that the tax effort of Himachal Pradesh, in respect of both tax revenue and non-tax revenue is lower than that of Punjab and Haryana. Himachal Pradesh, as one of the high per capita income states, has the potential to mobilise higher tax revenue and particularly non-tax revenue as the percentage of its GSDP.

Committed Expenditure on Major Items

The committed expenditure of the state is 123.54 per cent of its revenue receipts in 2003-04 (BE). It comprises salaries, pensions, grants in aid and interest payment. The percentage of committed expenditure has increased from 116.10 per cent in 2002-03 to 123.54 per cent in 2003-04 (BE). Table 6.7 shows the committed expenditure and Revenue Receipt and percentage of committed expenditure to Revenue Receipt.

The present pension scheme for government employees puts an open-ended financial burden on the consolidated fund of the state. An expert group set up by the Government of India on reducing the financial burden on account of pensions has submitted its report. A hybrid scheme which combines contributions from the employees and the state government on a matching basis assuring the employees of defined benefits as pension has been formulated. A pension scheme based on these parameters could reduce the mounting burden on the consolidated fund of the state and release funds for development.

Himachal Pradesh Government Employees

The expenditure on salaries has been increasing consistently. The highest recruitment was witnessed in 1999, which in a single year was 5.66 per cent. This aggravated the precarious financial position of the state and led to borrowings at uneconomical rates of interest. The increase in expenditure on the employees in this year was due to the liberal policy of regularising daily wage workers after eight years of service.

TABLE 6.7

Committed Expenditure on Major Items

(Rs. in crore)

Item	*1995-96*	*1996-97*	*1997-98*	*1998-99*	*1999-00*	*2000-01*	*2001-02*	*2002-03 (RE)*	*2003-04 (BE)*
Salaries and Wages	769.10	879.14	1053.00	1412.00	1501.70	1683.00	1877.00	1987.05	2275.71
Pensions and Retirement Benefits	103.20	126.50	165.50	222.40	445.11	391.20	442.80	570.00	580.00
Grants-in-aid	214.00	226.20	283.70	222.00	182.01	292.20	201.60	279.27	249.58
Interest Payments	285.30	313.00	372.10	498.00	597.34	798.30	1041.00	1669.20	1875.70
Total above	**1372.00**	**1545.00**	**1874.00**	**2354.00**	**2726.20**	**3165.00**	**3562.00**	**4505.52**	**4980.99**
Revenue Receipts	1754.00	1992.00	2105.00	2312.00	3715.30	3046.00	3716.00	3880.73	4031.97
% of Committed Expenditure to Revenue Receipts	78.20	77.55	89.03	101.83	73.38	103.92	95.86	116.10	123.54

Source: Budget Documents of the State.

TABLE 6.8

Himachal Pradesh Government Employees

Years	Regular	Part Time Employees	Work Charged	Daily Paid Workers	Total	Annual Growth Rate
1990	1,11,700	4,217	6,098	58,617	180632	—
1991	1,13,851	4,613	5,434	58,024	181922	0.71
1992	1,14,831	4,866	6,126	65,042	190865	4.92
1993	1,12,717	5,404	6,624	59,570	184315	-3.55
1994	1,13,039	5,426	6,455	60,124	185044	0.39
1995	1,15,493	5,704	12,023	56,725	189945	2.65
1996	1,17,944	5,667	17,716	58,607	199934	5.25
1997	1,20,703	6,308	19,294	56,318	202623	1.34
1998	1,23,626	7,242	21,039	54,983	206890	2.10
1999	1,31,919	8,718	23,778	54,190	218605	5.66
2000	1,36,085	9,000	27,827	52,430	225342	3.08
2001	1,39,882	9,794	31,001	46,455	227152	0.80

Source: Planning Department of the Himachal Pradesh Government.

The wage bill of government employees in 1995-96 increased from Rs.769.10 crore per year to Rs.1566.17 crore in 1999-2000 mainly because of fresh recruitment and implementation of new scales of pay on the pattern of the Punjab Government employees consequent upon the acceptance of the recommendations of the Fourth Central Pay Commission. The yearly increase in number of employees of the Himachal Pradesh Government is shown in Table 6.8.

Revenue from State Taxes

A critical review of different state taxes is important. The taxes falling in the domain of the state are sales tax, state excise duty, tax on vehicles, tax on goods and passengers, stamp duty and estate duty. Table 6.9 gives the details of income from state taxes from 1991-92 to 2003-04 (BE).

Revenue from different state taxes will touch Rs. 1008 crore in 2003-04 as compared to Rs. 192.43 crore in 1991-92. This growth is not adequate. Income from sales tax, excise duty, stamp registration and estate duty, tax on goods and passengers have good potential to grow and a compound growth of 15 per cent should be achieved like other states with high per capita income. An increase in its own revenue income will have a multiplier effect. Besides, it will attract investment from financial institutions for development.

Income from the state's own revenue, transfers and grants from the Government of India is not enough to meet the mounting pressure of revenue expenditure. Public debt has been a convenient means of raising resources and the state continues to rely on borrowings to cover its mounting deficit.

There is consensus among the states on the need to reduce deficit, but so far very few have addressed the problem comprehensively. Most of them are using piecemeal measures to reduce the deficit. The electorate usually finds reduced spending more tolerable than increased taxes. The cuts in expenditure are painful but can be strategically aimed at unpopular programmes. Cutting expenditure has also its limits. Therefore, increasing the tax base remains the option. Although tax increases are politically unpopular, the state government will have to raise its tax rates to cover the cost of social security, education and health-care and also as a way to transfer wealth from the rich to the poor.

TABLE 6.9

Revenue from the State Taxes

(Rs. in crore)

Years	Land Revenue	Stamp and Registration & Estate Duty	Sales Tax	State Excise	Taxes on Vehicles	Taxes on Goods and Passengers	Taxes & Duty on Electricity	Other Taxes & Duties on Commodities & Services	Total
1991-92	0.89	7.98	66.90	66.25	8.78	26.98	2.77	11.88	192.43
1992-93	1.59	9.52	75.20	75.78	9.87	28.63	5.27	15.80	221.66
1993-94	1.00	10.19	93.88	83.52	11.56	35.22	2.11	18.25	255.73
1994-95	1.15	12.00	107.18	94.54	11.17	39.77	9.88	23.75	299.45
1995-96	0.87	13.78	122.83	105.50	12.31	45.80	17.92	22.50	341.51
1996-97	5.95	15.44	146.26	132.46	14.46	65.26	18.64	13.63	412.10
1997-98	1.67	18.77	171.18	159.54	15.83	96.80	7.05	5.32	476.16
1998-99	1.04	21.62	196.56	185.55	17.48	115.11	28.03	6.64	572.03
1999-00	6.47	24.68	233.06	198.70	28.37	104.84	0.20	23.93	620.25
2000-01	3.38	29.22	302.05	209.17	61.04	43.05	27.39	52.60	728.40
2001-02	51.84	34.27	355.08	236.28	132.70	34.26	8.32	62.79	915.54
2002-03 (RE)	4.30	33.57	383.00	273.00	81.98	34.49	37.00	74.65	921.99
2003-04 (BE)	3.81	37.40	448.00	291.00	82.80	32.43	32.16	80.00	1007.60

Source: *Statistical Outline of Himachal Pradesh 2000-01* and *Budget in Brief of Himachal Pradesh, 2002-03*.

The financial position of other states of India also deteriorated over the year, particularly after the implementation of the Fourth Pay Commission report in 1997, but the gross fiscal deficit of Himachal Pradesh remained persistently the highest as is clear from Table 6.10.

TABLE 6.10

Gross Fiscal Deficit as a Ratio of NSDP in Ten States

(in per cent)

States	*1990-91*	*1995-96*	*1997-98*	*1998-99*	*1999-00*
Orrisa	6.4	5.8	6.3	9.4	11.4
Rajasthan	3.0	6.3	4.9	8.6	9.1
Uttar Pradesh	6.2	4.3	5.7	7.6	6.7
Punjab	7.4	4.0	5.6	7.4	5.8
Goa	9.4	3.5	3.5	6.6	—
Gujarat	7.4	2.7	4.0	6.3	—
Haryana	3.2	3.8	3.4	5.8	5.1
Kerala	6.6	3.7	5.0	5.3	—
Bihar	7.0	3.9	1.9	4.1	9.7
Himachal Pradesh	**12.03**	**8.78**	**15.26**	**15.53**	**1.55**

Source: *State Finances*, published by RBI – 2002.

Reforms should broaden the resource base of the state, enhance the tax and non-tax revenue, visibly decrease unproductive and wasteful expenditure, reduce the debt stock of the state and control the spiralling revenue and fiscal deficit.

Planning and Tenth Five Year Plan

A review of the financial resources of the state indicates that non-plan revenue receipts fell short of the non-plan revenue expenditure. This is because of the state's high committed expenditure on salaries, pensions, grants-in-aid, and interest payments. Therefore, the plan was financed by borrowed funds and central assistance from the Planning Commission.

The balance of the current revenue in each year of the Ninth Plan and 2002-2003 has been consistently showing a deficit. Each annual plan of the Ninth Plan has been financed by non-SLR borrowings, institutional borrowings from HUDCO, LIC and NABARD, market borrowings, small savings and central assistance from the Planning Commission. Plan assistance increased from Rs. 546 crore in 1997-98 to Rs. 1251 crore in 2001-2002. Resources for financing the Ninth Plan are shown in Table 6.11.

TABLE 6.11

Financing of Ninth Plan and Estimates of Annual Plan 2002-03

(Rs. in crore at current prices)

Sources of financing	*1997-98 (Actuals)*	*1998-99 (Actuals)*	*1999-00 (Actuals)*	*2000-01 (Actuals)*	*2001-02 (L.E.)*	*2002-03 (Est.)*
1990	1,11,700	4,217	6,098	58,617	180632	—
1991	1,13,851	4,613	5,434	58,024	181922	0.71
State's Own Resources	928	802	678	752	552	668
Balance from Current Revenue	-458	-832	-1044	-969	-935	-1079
Contribution of State PSUs	0	-49	0	0	0	0
Plan Grants under TFC/EFC	33	18	67	30	42	42
Miscellaneous Capital Receipts (net)	-62	-58	-68	-109	-243	-392
Provident Fund	197	270	278	255	254	245
Mobilisation of Small Saving	649	279	69	111	150	158
Gross SLR based Market Borrowings	51	146	229	233	345	355
Negotiated Loans	62	228	447	454	331	320
a) LIC	5	73	315	186	100	110
b) GIC	0	0	0	0	0	0
c) IDBI	0	0	0	0	0	0
d) NABARD	33	44	44	120	100	110
e) REC	21	31	27	30	31	0
Other (specify) HUDCO	3	80	61	118	100	100
Non-SLR Borrowings	305	0	640	567	508	1017
Debentures/Bonds (HPSEB)	85	38	142	180	100	0
Adjustment of Opening Balance	65	762	-82	0	0	0
Central Assistance	546	765	946	968	1168	1234
Aggregate Plan Resource	1474	1567	1624	1720	1720	1900
State Plan Outlay	1474	1567	1624	1720	1720	1900

Source: *Plan Documents* of Himachal Pradesh Government.

Resources and Plan Performance during Ninth Plan

The actual resource mobilisation and plan performance during the Ninth Plan is shown in Table 6.12.

TABLE 6.12

Resources and Plan Performance During the Ninth Plan

(Rs. in crore)

Years	Resource Mobilisations			Plan Performance in %
	State's Own Resources	Central Assistance	Total	
Annual Plan 1997-98	788.36	546.31	1334.67	106.07
Annual Plan 1998-99	836.67	764.71	1601.38	106.62
Annual Plan 1999-00	664.32	1013.88	1678.20	104.52
Annual Plan 2000-01	752.11	967.89	1720.00	100.00
Annual Plan 2001-02	468.92	1251.08	1720.00	100.00

Source: *Plan Documents* of Himachal Pradesh Government upto 2002-03.

Table 6.12 indicates the efforts of the state government to mobilise resources more than the original outlay.

Against the approved outlay of Rs. 5700 crore, the revised outlay of the Ninth plan was Rs. 7488 crore. Ultimately the state exceeded the revised outlay and the actual expenditure was Rs. 7896.72 crore.

Growth of Economy in Eighth, Ninth and Tenth Plan

During the Eighth Plan, the national economy grew at a rate of 6.7 per cent and Himachal Pradesh registered a growth rate of 6.3 per cent per annum. Growth in the Ninth Plan at the national level averaged 5.35 per cent and economy of Himachal Pradesh grew at the rate of 6.2 per cent. The National Development Council resolved that the growth target of the Tenth Plan (2002-07) should be 8 per cent per annum. For Himachal Pradesh, the state government has fixed a growth target of 8.9 per cent per annum.

The Council of Ministers of Himachal Pradesh, taking into account a higher growth achieved in the Ninth Plan, has fixed the growth target for Tenth Plan at 8.9 per cent. The additional resources are in sight due to likely sale of free power from the country's largest Hydro Electric Power Project at Nathpa-Jhakri on account of progressive commissioning of its six 250 MW Units. There are ready buyers for this power including neighbouring states of Punjab and Haryana. It will yield additional income from the year 2003-04 onwards, which is likely to reach Rs. 400 crore per year in 2006-07.

The revenue collection from Sales Tax, Excise Duty, Stamp Duty, Motor Vehicle Tax, which has stagnated, should grow at 15 per cent to 20 per cent per year. The swapping of expensive debt with cheaper debt, targeted reduction in current expenditure level, minimum reliance on borrowings are the other measures to generate resources for projected rate of growth in the Tenth Plan.

Tenth Plan Objectives

The important areas which need to be addressed during the Tenth Plan are:

i. acceleration of hydro power generation

ii. substantial increase in agricultural and horticultural production

iii. creation of infrastructure facilities for tourism to generate employment emerging from a high level of literacy.

iv. introduction of IT courses in colleges and technical education institutions.

v. connectivity to all villages.

vi. access to drinking water, particularly in difficult hilly areas.

vii. bringing fiscal and financial discipline to progressively reduce the mounting revenue and fiscal deficits and a sharp reduction in the interest liability on account of debt of the state.

Resources for Financing the Tenth Plan

Resources of the state for financing the Tenth Plan – 2002-07 have been projected in Table 6.13

TABLE 6.13

Resources for Financing the Tenth Plan 2002-07

(Rs. in crore at current prices)

Source of Financing	2001-02 L.E.	2002-03	2003-04	2004-05	2005-06	2006-07
State's Own Resources	552	666	587	621	662	700
Balance from Current Revenue	-935	-1079	-1206	-1083	-1101	-1288
Contribution of State PSUs	0	0	0	0	0	0
Plan Grants under TFC/EFC	42	42	42	0	0	0
Miscellaneous Capital Receipts (Net)	-243	-392	-637	-708	-788	-878
Provident Fund (Net)	254	245	200	200	200	200
Mobilisation of Small Savings	150	158	166	175	184	192
Gross SLR based Market Borrowings	345	355	365	376	387	398
Negotiated Loans	100	110	121	133	146	160
Non-SLR Borrowings	508	1017	1315	1295	1388	1656
Debentures/Bonds	100	-	-	-	-	-

Source: *Plan Documents* of Himachal Pradesh Government 2002-03.

The balance of the current revenue is consistently negative in the five years of the Tenth Plan and it increases every year. Therefore, there is no surplus for the Plan from the revenues of the state. Market borrowings, negotiated loans, institutional loans from LIC, NABARD, HUDCO including substantial non-SLR borrowings, Rs. 1656 crore in 2006-07 are the projected resources for the Tenth Plan. These figures will change depending on the borrowings permitted by the Government of India and the Planning Commission.

Essential Features of the Tenth Plan

Essential features of the Tenth Plan, approved by the Government of India, include:

i. creation of additional jobs

ii. aggressive disinvestment of public sector undertakings, notwithstanding the stiff resistance.

iii. increase in the tax-GDP ratio by about two per cent by 2007.

iv. cut in Non-plan expenditure by two per cent of the GDP

v. enhanced tax collection through strict enforcement of tax laws.

vi. withdrawal of unmerited incentives and concessions and introducing an integrated VAT.

vii. right-sizing the government and cut in administrative overheads.

Projected Outlay During the Tenth Plan

Sector-wise Tenth Plan outlay of Himachal Pradesh is given in Table 6.14.

The Planning Commission has approved the size of state's Tenth Plan at Rs. 10300 crores and the breakup of the sector-wise outlay as per Table 6.14. The additional resource mobilisation has been assessed by the Planning Commission, while approving the plan size. This includes enhancing tax collection by strict enforcement, increase in tax GDP ratio by two per cent and cut in non-plan expenditure by two per cent of GDP, right sizing the government, enhancing revenue through sale of free power falling to the share of Himachal Pradesh Government during the plan period and swapping of the expensive debt with cheaper debt. These measures will provide additional resources for implementing the Tenth Plan to achieve targeted growth of 8.9 per cent.

TABLE 6.14

Tenth Plan 2002-07 Projected Outlay Himachal Pradesh

(Rs. in crore)

	Major Heads of Development	*Amount*
1.	Agriculture & Allied Activities	1201.69
2.	Rural Development	438.16
3.	Special Area Programmes	20.80
4.	Irrigation & Flood Control	453.18
5.	Energy	1235.00
6.	Industry & Minerals	104.73
7.	Transport	1635.94
8.	Communications	2.11
9.	Science & Technology	6.42
10.	General Economic Services	223.74
11.	Social Service including Education	4893.48
12.	General Services	8.475
	Grand Total	**10300.00**

Source: *Concerns and Strategies*, Planning Commission of India 2002-03.

Himachal Pradesh, a special category state, receives funds as its share of taxes from the central pool, grants to meet the revenue gaps and grants-in-aid from the Planning Commission as contribution for implementing the five year plans. Transfers from the Government of India from 1995-96 to 2001-02 have been compiled in Table 6.15.

TABLE 6.15

Transfers to Himachal Pradesh by the Government of India

(Rs. in crore)

Items	*1995-96*	*1996-97*	*1997-98*	*1998-99*	*1999-00*	*2000-01*	*2001-02*
Share in Central Taxes	400.68	539.14	705.13	763.74	921.39	330.54	325.07
Non-Plan Grant in Aid	323.98	208.57	77.23	36.82	2.89	842.05	1013.00
Natural Calamity Grants	31.57	31.44	46.13	22.42	23.37	32.61	95.72
Plan Grants including Upgradation/Spl Prob	444.71	565.54	561.12	642.78	950.26	740.92	965.20
C.S.S. Grants	51.46	55.73	134.48	163.18	189.75	235.05	227.68
Total	**1252.40**	**1400.42**	**1524.09**	**1628.94**	**2087.66**	**2181.17**	**2626.67**

Source: *Planning Department Documents* of Himachal Pradesh Government.

TABLE 6.16

Plan Performance of the Himachal Pradesh, Punjab and Haryana

(Rs. in crore)

States	*Ninth Plan Actuals versus Tenth Plan Outlay*		*Central Assistance*						*Total of State's Own Resources and Tenth Plan Central Assistance*
	Ninth Plan Expenditure	*Tenth Plan Projected Outlay*	*Sixth Plan (1980-85)*	*Seventh Plan (1985-90)*	*Eighth Plan (1992-97)*	*Ninth Plan (1997-02)*	*Tenth Plan (2002-07)*	*State's Own Resources*	
Haryana	8035.41	10285.00	280.58	431.31	1932.22	3884.95	3180.00	7105.00	10285.00
Himachal Pradesh	**7922.00**	**10300.00**	**459.16**	**951.39**	**2103.99**	**4426.79**	**5540.00**	**4760.00**	**10300.00**
Punjab	10666.01	18657.00	261.65	285.34	6182.59	4188.73	3979.00	14678.00	18657.00

Source: Compiled from *Concerns and Strategies*, Planning Commission of India.

Central assistance and own resources of Punjab, Haryana and Himachal Pradesh have been compiled in Table 6.16. Central assistance to Himachal Pradesh has been consistently higher than the assistance to Punjab and Haryana.

The plan performance of Himachal Pradesh in financial terms is better than that of its neighbouring states of Punjab and Haryana.

Himachal Pradesh is likely to get the largest central assistance during the Tenth Plan period and per capita plan expenditure in Himachal Pradesh is the highest as compared to Punjab and Haryana. However, the common denominator of the structure of plan resources is that there is no surplus from revenue balance in each of the states and the contribution of the states is from borrowings and negotiated loans.

Growth Targets of the State in the Tenth Plan

Growth targets of Punjab, Haryana and Himachal Pradesh are shown in Table 6.17.

TABLE 6.17

Growth Targets of the States of Punjab, Haryana and Himachal Pradesh Tenth Five Year Plan (2002-07)

(Annual average in %)

States	*Sector-wise Growth Targets*			*GSDP Growth*
	Agricultural	*Industry*	*Services*	
Himachal Pradesh	**4.55**	**12.49**	**8.26**	**8.92**
Haryana	4.07	9.56	10.33	7.93
Punjab	4.07	8.06	8.00	6.42

Source: Compiled from *Concerns and Strategies*, Planning Commission of India.

It is evident that Himachal Pradesh is ahead of the neighbouring states in the matter of planned growth of agriculture, industry and the services sector.

Sectoral State Domestic Product

The percentage of the contribution of the secondary and tertiary sectors to the sectoral state domestic product over the plan periods has been steadily rising at the expense of the primary sector as is evident from Table 6.18.

Table 6.18 indicates that the primary sector in 2001 contributed 22.5 per cent, secondary and tertiary sector contributed 32.9 per cent and 44.6 per cent respectively. There is a clear shift from primary to secondary and tertiary sectors, which is a sign of growth and increase in employment opportunities.

Targeted Sectoral Contribution in the Tenth Plan

In the Tenth Plan period, the secondary sector is expected to grow from 35 to 40 per cent with growth in the manufacturing sector, construction activity and the contribution of electricity, gas and water supply sectors. This is because large power projects will come up in the Tenth Plan and the state will make a quantum leap due to its 'free share' in new power generation. The manufacturing sector will receive a boost as the package recently announced by the Government of India for Himachal Pradesh is attractive for setting up new industries. The tertiary sector is expected to change from 43 per cent to 42 per cent. This is evident from the last column of Table 6.18.

Growth in the Tenth Plan should be a landmark development in the state as the projection of 8.9 per cent is higher than the national target of eight per cent.

TABLE 6.18

Percentage Contribution in Sectoral State Domestic Product at Current Prices

(Rs. in crore)

Sector	*1980-1981*	*1990-1991*	*1996-1997*	*1997-1998*	*1998-1999*	*1999-2000*	*2000-2001*	*2001-2002*	*2006-2007*
Primary	50.35	37.82	32.62	31.92	27.58	26.41	22.5	22	18
Secondary	18.69	25.03	30.17	30.40	32.34	33.01	32.9	35	40
Tertiary	30.96	37.15	37.21	37.68	40.08	40.58	44.6	43	42

Source: *Tenth Five Year Plan (2002-2007)* and *Economic Survey 2002*.

Core Areas of Growth in the Primary Sector

In the primary sector, the prominent areas of growth are horticulture, vegetables, maize, forestry and logging. The contribution to GSDP by core activities in the primary sector is shown in Table 6.19.

The contribution of agriculture and horticulture has been erratic due to wide variations in weather conditions. In horticulture, significant improvement in production cannot be expected in a period of five year as root stock change and replant programmes cannot yield visible results within this time frame. Significant improvement in productivity in horticulture, in the existing orchards is possible through improvement in the techniques of orchard management.

TABLE 6.19

Contribution to GSDP by Core Activities in the Primary Sector

Years	*Contribution to GSDP (Rs. in crore)*					
	Agr.	*A.H.*	*Hort.*	*Fly. & Logging*	*Fishing*	*Mining*
1993-94	568	447	172	331	19	29
1994-95	643	442	98	354	15	39
1995-96	626	444	168	324	17	48
1996-97	616	448	184	334	18	47
1997-98	655	442	144	341	19	63
1998-99	612	454	224	316	19	67
1999-2000	679	456	55	314	19	76
2000-01	649	480	215	315	20	76
2001-02(P)	762	476	142	319	20	85

Source: Data supplied by Planning Department of Himachal Pradesh Government

On the other hand, vegetables and maize are expected to be the major contributors to incremental growth. The supply of quality seed, technology and extension services will help in increasing the output of vegetables in the Tenth Plan period. The increased output of maize will require to be linked with its absorption as a raw material by the industry for value addition.

Priority Sectors

The size of the Tenth Plan has been kept at Rs.10,300 crore. The allocation for the social service and economic service sectors are: -

i. Social Service Sector - 44.4 per cent

ii. Economic Service Sector - 53.6 per cent

The priority sectors are (a) infrastructure development and (b) commissioning of power projects.

The social service sector lays emphasis on developing the tribal areas in particular. This includes construction of new roads, culverts, bridges, and other means of communication. Irrigation facilities have to be extended to ensure higher agricultural production to improve the economic condition of tribal farmers.

Capital Receipts and Capital Expenditure of Himachal Pradesh

Capital receipts and capital expenditure of the state have shown a net surplus in the four years data which are compiled in Table 6.20.

TABLE 6.20

Capital Expenditure and Capital Receipts of Himachal Pradesh

(Rs. in crore)

Years	*1999-2000*	*2000-2001*	*2001-2002*	*2002-2003*
Capital Receipts	1139.21	1729.76	1711.58	2255.54
Capital Expenditure	722.02	672.02	933.27	1114.61
Net	417.19	1057.73	778.30	114.93

Source: Compiled from Budget Documents of Himachal Pradesh Government.

Capital receipts of the state include market borrowings and negotiated loans. Normally, capital receipts are utilised essentially to meet the capital expenditure for the creation of assets and development. However, surplus of capital receipts over the capital expenditure has been diverted to meet revenue deficits. Borrowings have been utilised to meet the revenue deficit on committed liabilities. This has resulted in a high unsustainable debt-GDP ratio. This requires to be corrected for the sake of financial prudence and stability.

Himachal Pradesh has initiated a programme of restructuring the Plan and centrally sponsored schemes so that unproductive schemes are either eliminated or merged to bring rationalisation and achieve results commensurate with the investment.

Himachal Pradesh government is controlling Plan expenditure through 'quarterly expenditure authorisations'. Expenditure on Plan schemes is restricted to 25 per cent of the annual provision for each quarter. Planning Department obtains reports on physical and financial achievement from each department to exercise control and make an assessment. This has led to more than 100 per cent performance of annual plans, which is a distinctive achievement of the state in the northern region.

Hydro Power Potential as a Resource

Hydro Power Potential of Himachal Pradesh

Himachal Pradesh is endowed with a big hydro power potential. Power undisputedly is a critical input and it will be the principal and perennial source of revenue for the state. Its identified power potential is 20376 MW, which is almost 25 per cent of the hydro potential of the entire country. The state is harnessing its power potential through the Himachal Pradesh State Electricity Board (HPSEB), central power sector PSUs, public-private sector ventures or through the private sector. At present only 3942 MW has been harnessed. Projects for generating 6847 MW of power, including several micro hydel projects, are at various stages of execution.

Share of Himachal Pradesh as Royalty

According to a policy decision, Himachal Pradesh is to get as royalty 12 per cent of all non-HPSEB power generated in the state. This is to compensate the state for the environmental degradation and consequent stress caused by these projects. This free power, which in 2001-02 was 322.62 million units worth Rs.74.17 crore will increase to 3923.50 million units worth Rs.1646.17 crore in 2011-12. The estimated long-term income from royalty will increase to Rs. 2968.23 crore in 2021-22. This is net of the transmission and distribution losses. The expected revenue from power project has been taken from Para-iii of letter no. FIN-2-C(5)-4/97-1 dated 4th January, 2002 from the F.C.-cum-Secretary (Finance), Government of Himachal Pradesh to the Chairman, LIC of India, Bombay and Annexure 'B' attached to it. This is supported by a note supplied by Planning Department.

Hydro Power Generation

The trial run of the country's largest hydro electric power project at Nathpa and Jhakri is under way with the commissioning of one of its six 250 MW units. All the six units of this project are expected to be progressively commissioned to produce 1500 MW of power. This should increase the revenue income of the state on account of its share of free power as royalty and its share of 25 per cent of the balance power as 'partner state'. This will work out 34 per cent of the total generation from Nathpa-Jhakri.

There are ready buyers for this power including neighbouring states of Punjab and Haryana. It will yield an additional income of Rs.300 crore at Rs. 1.50 ps per unit and Rs. 400 crore at Rs. 2.00 per unit by 2006-07. Possibly Himachal Pradesh will be able to obtain/settle the latter rate because of the power shortage in the northern states of the region.

Income and Expenditure of HPSEB

The income and expenditure of the HPSEB in the year 2000-01 is shown in Table 6.21.

TABLE 6.21

Sources of Income and Expenditure in 2000-2001 (HPSEB)

Description	*Income Generated (paise)*	*Description*	*Utilisation of Income (paise)*
Domestic	9.94	Purchase of Power	43.82
Commercial	8.03	Repair & Maintenance	3.27
Industrial	44.18	Employees Cost	36.42
Bulk Supply	4.37	Administrative & General Expenditure	2.20
Irrigation and Others	9.00	Depreciation	3.59
Inter States	21.50	Interest & Financial Expenses	9.09
Misc. Income	2.32	Others	.48
Public Lighting	0.66	Prior Period Expenditure	1.13
Total	**100.00**	**Total**	**100.00**

Source: *29th and 30th Annual Administrative Report,* Himachal Pradesh State Electricity Board 1999-00 and 2000-01.

Over 44 per cent of the income of HPSEB comes from power consumed by the industry. Farm and allied consumption of power in Himachal Pradesh is low, only nine per cent, because 80 per cent of the agriculture in the state is rainfed. On the expenditure side, 44 per cent of the income goes into purchase of power to meet domestic demand on account of reduced generation in winter months.

The expenditure on employees and administrative expenses is high i.e. 38.62 per cent of the total income. Interest and financial charges of the board are also high, almost Rs.100 crore per year. This is because of borrowings at highly uneconomic rates of interest. The swapping of high-cost loans will substantially reduce the interest and financial charges.

A put and call option should be incorporated as a matter of abundant prudence for enhancing or postponing the payment of loans.

Transmission and Distribution Losses

Transmission and distribution losses of the HPSEB have been increasing over the years. Yet these are lower than several other states as shown in the Table 6.22.

There is need for upgrading the transmission and distribution system. Line losses are due to long-distance distribution networking in hilly terrain. There is little theft of energy in Himachal Pradesh.

The Electricity Bill which Parliament passed in May 2003, seeks to provide legal framework for reforms, restructure the power sector and simplify the administration of this public utility. Emphasis on continuous reduction of transmission-distribution losses will become incumbent on the State Electricity Board as its working is open to critical examination by State Electricity Regulatory Body. Stringent measures have been suggested to contain theft of power.

For evacuating power from inter-state and central projects, World Bank loan for reinforcing and strengthening the transmission system should be availed of by overcoming internal bottlenecks. It may not be possible for the HPSEB to implement this vital task, as funds of this order will not be available from internal or other sources.

Incentives for Upgradation of the System

The Government of India has recently launched an Accelerated Power Development Reforms Programme (APDRP) of reforms including reduction of transmission and distribution losses. Financial assistance from this scheme should be availed of for improving the financial position of the Board.

It is extremely expedient that the state government ensures completion of the projects in hand on schedule, as this will provide support to the state's economy and also the much needed power to the northern states. This is a very promising feature to improve its financial position as the state will sell its surplus power to the adjoining states or to other deficit states through the national grid. Income of the state on account of the sale of power should touch Rs. 400 crore by the end of the Tenth Plan i.e. 2007.

Himachal Pradesh Hydro Electric Power State

The income of the state will progressively increase as hydro power projects are completed and Himachal Pradesh will emerge as an important exporter of power to other states of the country.

In Himachal Pradesh the cost of generation is the lowest and consequently the tariff is also the lowest. Rural electrification is almost complete with 99.83 per cent of its 16997 villages electrified. Himachal Pradesh

TABLE 6.22

Transmission and Distribution Losses of HPSEB

(Rs. in crore)

States	*1990-91*	*1991-92*	*1992-93*	*1993-94*	*1994-95*	*1995-96*	*1996-97*	*1997-98*	*1998-99*
Himachal Pradesh	**17.51**	**18.07**	**18.51**	**17.31**	**17.41**	**17.25**	**17.89**	**19.20**	**20.13**
Haryana	27.49	26.79	25.40	25.50	28.50	31.40	31.70	32.20	31.10
Punjab	18.97	21.52	18.07	18.50	18.30	18.20	18.00	18.00	17.80
Tamil Nadu	18.74	18.63	17.50	17.30	16.90	17.00	17.00	17.00	17.00
Karnataka	20.11	19.88	18.70	18.60	18.90	18.50	18.50	18.40	17.40
Kerala	21.67	21.67	21.00	20.20	20.10	20.10	20.00	19.00	18.00
Maharashtra	18.06	18.40	16.40	15.80	15.30	15.40	15.30	15.20	15.20

Source: Documents of Himachal Pradesh State Electricity Board.

a "Hydro power state", is in a position to supply uninterrupted electricity to its consumers, 365 days in a year.

Performance and Rating of HPSEB

The HPSEB is one of the well-performing boards and was at No.5 in the all India grading. It is overstaffed and could break, even if one-third of its staff is re-deployed or opts for VRS. It could then be one of the best performing boards of the country and a contributor of resources to the state.

The assessment of the HPSEB carried out by the Union Ministry of Power, has worked out its transmission and distribution losses to be about 20 per cent over the past three years. It has been pointed out that the HPSEB is yet to undertake an energy audit and implement other reforms.

The board has a high proportion of in-house hydel energy available at a low cost. The cost of purchase of energy is also low and the tariff levels are adequate in relation to the cost of energy purchased and generated. Despite these positive factors, the board is suffering losses because of overstaffing as reflected in the exceptionally high employee costs.

There was an increase in the cost of purchased power during 2001-02 but a proportionate increase in the tariff was not effected. This affected profitability and the financial performance of the board depends upon its ability to reduce its cost and increase the tariff. The advice of the State Government to roll-back the increase in tariffs for domestic consumers should not be acted upon unless approved by the State Electricity Regulatory Commission as a legal compulsion.

The rating of the HPSEB in the power sector has slipped from No. 5 to No. 8 and strict measures should be taken to retrieve the lost ground. The financial position of the HPSEB has an impact on the finances of the state and visibly affects the state's budgetary resources. Himachal Pradesh Government is entitled to a 12 per cent share in the power generated in the state according to a decision of the Union Cabinet in 1989-90. In addition, Himachal Pradesh claims a tax of 5 paise per unit on power generated, under Item 288 of the state list.

The state has claimed a share up to 7.5 per cent of the power generated in the Bhakhra, SYL and Pong Dam system as a successor state under the Punjab Reorganisation Act. This is a compensation for the stress and environmental degradation consequent upon the building of dams and reservoirs affecting ecology of Himachal Pradesh.

The claim of compensation from Bhakhra Dam and SYL, Pong Dam system in accordance with the provisions of the Punjab Reorganisation Act, has been persistently pursued by Himachal Pradesh government for the last 20 years and at present it is before the Supreme Court of India for adjudication.

Even though the state government has sought intervention of the Supreme Court, the state expects the Government of India to intervene for an out of court settlement in accordance with the provisions of the Punjab Reorganisation Act.

Public Sector Reforms in Himachal Pradesh

In an era of liberalisation, the role of government has considerably changed to that of a facilitator for the creation of infrastructure for economic growth and the consensus is that it should withdraw its role as a 'participator', because doing business is not the government's business. It is conceded that disinvestment is not merely for mobilising resources for the government it is mainly for unlocking the productive potential of the undertakings and taking the government away from business, towards business of governance.

PSU Reforms through Disinvestment/Mergers

Schematic parameters for the reform of Public Sector Undertakings (PSUs) have been outlined by the Himachal Pradesh government in its order dated 20 October, 2000. It provides for the continuance of the Himachal Pradesh State Electricity Board (HPSEB), Himachal Pradesh Road Transport Corporation, Himachal Pradesh State Forest Corporation, Himachal Pradesh Civil Supply Corporation, Himachal Pradesh Khadi Board, Himachal Pradesh Financial Corporation, two development financial corporations under the welfare department (instead of four) and the merger of Himachal Pradesh Housing Board and Himachal Pradesh Nagar Vikas Pradhikaran. These organisations are to be restructured for cost effectiveness. The remaining PSUs should be phased out through disinvestment or mergers/amalgamation. Action in this behalf is at various stages of implementation. It is necessary that this policy decision is implemented expeditiously to reduce avoidable losses to the state.

Considering the poor financial health of the state, disinvestment or even closing down of loss-making PSUs will reduce the deficit, raise resources for investment and help in repaying the mounting debt of the state arising from high-cost loans. It is important that the fast-track disinvestment policy, as chalked out, should be implemented by the state.

High-cost Loans Swapping with Low-cost Loans

It has been noticed that the PSUs of Himachal Pradesh have taken loans from the market from 1994-95 to 2001-02 at uneconomically high rates of interest as shown in Table 6.23.

TABLE 6.23

Highlights of Market Loans Taken from 1994-95 to 2001-02

(Rs. in crore)

Years	*Interest on Loans*	*Loans Taken*	*Arranger Fee*
1994-95 to 1997-98	15.30%	913.08	13.69
	18.26%		
1998-99 to 2001-02	11.45%	1835.17	3.84
	13.75%		

Source: Documents of Himachal Pradesh Government.

It is understood that large borrowings by the government through the PSUs were necessitated by the increased liabilities of revenue expenditure including salaries, wages, grants-in-aid, pensions and other items of committed expenditure which in 2002-03 are estimated at 110.38 per cent of the revenue receipts. It is time that these loans are paid or swapped with low-cost debt to reduce the interest liability.

One Time Settlement (OTS) of NPAs and Asset Management Authority

There is adequate justification and also need for 'one time settlement' (OTS) of non-performing assets and similar investments and re-scheduling of the loans advanced by state sector financing agencies. Receipts from disinvestment should be placed in a 'Disinvestment Fund' managed by an 'asset management authority'. This fund should be utilised for financing, restructuring, implementing the voluntary retirement scheme (VRS) and for re-training and re-deployment of the employees of PSUs. VRS disbursement or retrenchment compensation should be the first charge on the 'disinvestment fund'. Additional resources if required should be raised from financial institutions against the assets of the PSUs transferred to the asset management authority to provide the employees of PSUs a safety net. The employees of PSUs rendered surplus on account of reforms, restructuring, zero-based budgeting, transfer of an activity from one company to another or discontinuation of on-going activities of PSU should be offered VRS.

Himachal Pradesh Infrastructure Development Board

Himachal Pradesh infrastructure development board (HPIDB) was established in January 2002 to develop and finance infrastructure projects in the state. It is a sort of 'special purpose vehicle' to raise resources for development. HPIDB has already raised Rs. 575 crore by the end of 2002 through bonds by private placement. The board has a defined role of raising funds through market borrowings against government guarantee and making these funds available for infrastructure development projects. According to the policy of the state, funds raised by the board are deposited in the account of the Himachal Pradesh Government. Repayment of loans raised through bonds and interest thereon is through budgetary transfers by the state government. This is an innovative measure to bring in non-budgetary resources for enlarging the kitty of the government through market borrowings for infrastructure development within overall approval of Government of India including Planning Commission. The policy of raising resources outside the budget through a 'Special Purpose Vehicle' is likely to undergo a change because of a change in the policy of Government of India.

The policy of raising funds through 'Special Purpose Vehicle' should be given a second look by the state government as this only adds to the debt of the state. Instead, HPIDB should prepare projects relying on the concept of 'user pays' and progressively introduce Public Private Partnership for raising non-budgetary resources for development purposes.

Measures for Stabilising the Financial Position of Himachal Pradesh

The economy of Himachal Pradesh has not recorded growth commensurate with the financial inputs during the Eighth and Ninth Plans. Factors which adversely affected the state's fiscal position over the past ten years are high salaries, a sharp growth in the pension bill, mounting debt, highly subsidised social and economic services, slow growth of revenue income and loss making PSUs.

The quality of governance and also of expenditure over these years have suffered. Excessive recruitment of daily wagers and their regularisation after eight years, now reduced to seven years, deterioration of the quality of education, ill-equipped and ill-supported primary health centres have considerably affected the quality of two vital social services.

There is a need for restructuring the tax collection mechanism, plugging leakages in revenue collection from sales tax, excise duty, stamp duty and motor vehicle tax which have stagnated, with a low rate of buoyancy. It is time to take effective measures to increase revenue from the existing base of taxation, as these taxes can grow 15 to 20 per cent per year over the next four-five years.

It is a sad commentary that the state has been liberally raising loans through the expensive route of small savings and other non-traditional sectors at rates of interest much higher than the nationally accepted norms for government borrowings.

The swapping of expensive debt with cheaper debt, a targeted reduction in the current expenditure level, minimum reliance on borrowings are measures that can reduce the fiscal stress of the state. At present, more than 100 per cent of the state's own revenue is spent on paying the yearly interest on borrowings.

The composition of public expenditure has undergone a significant change in the last decade. A major percentage of the borrowings of the state government have been used to fill the revenue gap. Capital expenditure of the state is down to 6.96 per cent of the GDP. Even about 60 per cent of the plan expenditure is accounted for by revenue expenditure.

After a detailed and intensive review, the state government should gradually withdraw from several unproductive sectors including unmerited subsidies. Primary health care, school education and other social sector activities that enrich the human capital should continue to receive priority for budgetary support.

Himachal Pradesh, a special category state, receives budgetary support which is statutory in nature and is based on the recommendations of the Central Finance Commission. In addition, Plan transfers comprise grants and loans component. These transfers act as a disincentive for the state to enhance its revenue effort.

Unsustainable Macro Fiscal Situation

The Himachal Pradesh government is faced with an unsustainable macro fiscal situation which is evident from the following financial data for 2002-2003 (RE):

- revenue deficit of Rs.1793.77 crore; 10.87 per cent of the GDP.
- gross fiscal deficit of Rs. 2346.18 crore; 14.63 per cent of the GDP.
- public debt of Rs. 14230 crore; 86.4 per cent of the GDP.
- annual interest liability of Rs. 1669.20 crore is 43.01 per cent of the total revenue. It comprises own revenue, grants and transfers from the Government of India.
- salaries, pensions, interest payments and grants-in-aid of Rs. 4505.52 crore is 116.10 per cent of the total revenue of Rs. 3880.73 crore.
- revenue receipts, including transfers, are not enough to pay the salaries, pensions, interest and other committed expenditure.
- PSUs face a still worse unsustainable fiscal situation.

In such circumstances, it is not possible to approach multilateral funding agencies, financial institutions and capital markets for non-budgetary funds, unless backed by state guarantees which in turn increase the contingent liability of the state disproportionately.

The corrective measures to be taken should not only be effective, but also need to be put in place without any loss of time. These measures should result in cutting down and compressing the expenditure with no cut on services like water supply, health, primary education, sanitation and power.

In short, the finances of the Himachal Pradesh government have been showing considerable deterioration since 1991. A very high debt stock revenue deficit and fiscal deficit to the GDP are the marked features of this period. This calls for urgent fiscal reforms.

One of the terms of reference of the Eleventh Finance Commission (EFC) was to review "the state of finances of the Union and the states and suggest ways and means by which the governments collectively and severally, may bring about a restructuring of public finances so as to restore budgetary balance and maintain macro-economic stability".

Based on its examination, the Commission recommended revenue grants for 15 states recognised as revenue-deficit states during 2000-05. The remaining ten states were assessed to be surplus in revenue. The commission, after careful consideration, recommended a monitorable fiscal reforms programme for all the 25 states. It recommended that 15 per cent of the revenue deficit grants meant for 15 states and a matching contribution by the Central Government be credited into an 'incentive fund' from which fiscal-performance based grants should be made available to all 25 states. It was suggested that the total 'incentive fund' should grow to Rs. 10607.72 crore by the end of 2005.

It was decided that 85 per cent of the revenue-deficit grants recommended by the Commission may be released to Himachal Pradesh without linking these to performance under the monitorable fiscal reforms programme. Only 15 per cent of the revenue-deficit grant may be held back and linked with progress and performance as identified below.

Starting with the base year 1999-2000, the state should take effective measures for revenue augmentation and expenditure compression over the five years to achieve the following objectives:

- gross fiscal deficit of the state should be reduced to 2.5 per cent of the GSDP.
- revenue deficit of the state should fall to zero.
- interest payments as a percentage of revenue receipts of the state should be 18 to 20 per cent.
- increase in wages and salaries should not exceed five per cent or increase in the consumer price index whichever is higher.
- increase in interest payments may be limited to ten per cent per year.
- subsidies to be brought down by 50 per cent in next five years and eliminated by 2009-10.

To achieve the above objectives, the Government of India has decided that the state should draw up a medium term fiscal restructuring policy (MTFRP) to achieve 'fiscal objectives and reforms' and 'power sector reforms' as follows:

Fiscal Objectives and Reforms

- widening the tax base.
- increase tax rates on a year-to-year basis.
- pricing services such as irrigation, water charges, bus fares, identifying the subsidy element and preparing a schedule to reduce the subsidy element.
- indexing price/user-charges to major input costs such as POL, wages, etc.
- abolition of vacant posts, except primary school teachers and health workers.
- new teachers to be appointed on contract basis as in Rajasthan and Madhya Pradesh.
- work-charged establishment to be redeployed for new capital works. Practice of engaging new work-charge staff and daily wage workers to be dispensed with immediately.
- tapering grants to institutions.

Power Sector Reforms

Power sector reforms should aim at reducing the negative contribution of the HPSEB to state revenues. The other ingredients are:

- achieving an average tariff equal to the cost of power in two years.
- setting up of a State Regulatory Electricity Commission (SREC).
- implementing the awards of the SREC.
- unbundling of basic services, i.e. generation, transmission and distribution or setting up of separate profit centres.
- reducing T&D losses by five per cent every year.
- metering up to 11 KV substation level.

Public Sector Restructuring Programme (PSRP)

The roadmap of PSRP should be:

- comprehensive VRS package should be drawn-up for loss-making PSUs.
- time bound schedule for winding up such PSUs.
- further infusion of funds either as equity or loans be phased out in five years, unless such PSUs are socially desirable.

Budgetary Reforms

The other budgetary reforms should include:

- separate schedule in the budget, giving total expenditure on salaries and wages.
- separate schedule on pensions and terminal benefits.
- scheme-wise, sector-wise schedule of subsidies.
- schedule of guarantees outstanding, year wise and project wise.

In addition, the revenue deficit should include:

- contingent liabilities such as guarantees and letters of comfort.

- subsidies payable to PSUs including the HPSEB.

These are very hard conditions and cannot be complied with in their entirety by the Himachal Pradesh government and accordingly the state has not entered into a Memorandum of Understanding with the Government of India for implementing this programme.

The year-wise break-up of grants withheld from the incentive fund is given in Table 6.24.

TABLE 6.24

Break-up of Grant Withheld from the Incentive Fund

(Rs. in Crore)

2000-01	*2001-02*	*2002-03*	*2003-04*	*2004-05*	*Total*
161.23	156.96	149.16	133.91	114.92	716.18

Source: *State Financial Reforms Facility 2000-01 to 2004-05,* Ministry of Finance, Government of India, Annexure-III.

Since the state has not complied with the conditions for implementing fiscal reforms, it has not received 15 per cent of the deficit grant recommended by the Eleventh Finance Commission, amounting to Rs. 467.35 crore for 2000-01, 2001-02 and 2002-03. There is no chance of the state's getting 15 per cent of the deficit grants for 2003-04 and 2004-05. Thus the state will be deprived of its due share of deficit grants amounting to Rs. 716.18 crore by the end of 2004-05.

Himachal Pradesh cannot implement the 'fiscal policy objectives' set forth by the Eleventh Finance Commission, which *inter alia* include reducing the fiscal and revenue deficit to 2.5 per cent and zero per cent of the GDP respectively, reducing interest payment to 18 to 20 per cent of the revenue receipts and other harsh parameters. The state, therefore, has not signed a Memorandum of Understanding with the Government of India and the latter has withheld Rs. 467 crore which is 15 per cent of its share of grant.

Measures for Correcting Revenue and Fiscal Deficits

Keeping in view its precarious financial position over the years, the state must take measures for correcting its revenue and fiscal deficits, as listed below:

- revenue deficit be reduced to 2.5 per cent of the GDP by 2006-07 with 2002-03 as the base year.
- gross fiscal deficit as percentage of the GDP be reduced from 14.63 per cent to five per cent by the end of 2007.
- public debt as percentage of the GDP be reduced from 86 per cent to 50 per cent by 2007.
- committed expenditure as percentage of revenue of the state be reduced from 116 per cent to 60 per cent by 2007.
- reasonable caps be fixed on public debt and outstanding guarantees for effective management of the huge public debt burden and contingent liabilities of the state.
- sinking fund and guarantee redemption fund should be created to ensure timely repayment of debts and contingent devolvement of outstanding guarantees.
- the state should take steps to implement 'fiscal objectives and reforms' and power sector reforms, public sector restructuring programme and budgetary reforms as stated above.

These measures are within the reach of the state and should be accepted, for incorporation in the Memorandum of Understanding with the Government of India.

The Fiscal Responsibility and Financial Management Act

The Fiscal Responsibility and Financial Management Act should be enacted for long–term financial stability of the state by controlling in particular revenue and fiscal deficits. The Fiscal Responsibility and Financial Management Act is an important measure as it fixes ceilings on fiscal deficit, revenue deficit and the debt of the state as ratio of the GSDP. This also prescribes a limit on the guarantees issued by the state government involving contingent liability of the state.

The Fiscal Responsibility and Financial Management Act, 2003 was passed by Parliament in May 2003, enforcing fiscal corrective measures in the financial management of the Government of India. It follows that Himachal, a special category state, dependent on transfers from the Centre, adopts a similar measure to control its revenue and fiscal deficits.

Raising Loans Through Special Purpose Vehicle

The route of raising funds from the capital market through bonds by the HP Infrastructure Development Board - a 'Special Purpose Vehicle' - should be given a second look as this adds to the debt of the state. As at present, the instalments of principal and interest on borrowings raised by the Special Purpose Vehicle are a burden on the state revenues and make the financial position of the state vulnerable. The HP Infrastructure Development Board should prepare bankable schemes for infrastructure projects, comprising road upgradation, widening of roads and other urban and rural infrastructure. The concept of 'users pay' should be progressively introduced for promoting public-private partnership through the HP Infrastructure Development Board.

Availing Assistance Through Development

There is a provision in the Central budget offering assistance to the states in areas like 'acceleration of power development reforms programme', 'urban reforms incentive fund', 'rural infrastructural development fund'. The state should avail itself of the assistance by resorting to development measures in specified areas which have chronic deficiencies. This can be achieved only through improving the quality of expenditure and the quality of governance.

Medium Term Fiscal Programme

The state has to play its role in strengthening the physical infrastructure and human development to make it the favoured destination of private investment.

The challenge of fiscal management in Himachal Pradesh is serious. Measures have to be taken to reduce non-plan expenditure to divert funds to development. The share of transfers from the Centre on the recommendations of the Central Finance Commission and grants by the Planning Commission for Plan implementation has grown steadily in Himachal Pradesh - a Special Category State. However, the low growth of the state's own tax revenue, its mounting debt and guarantees for loans raised by the public sector undertakings and high Government expenditure, suggest need for the development of medium-term reforms framework also. A medium-term fiscal reforms programme should be drawn up by the Government and a three-year rolling budget presented with the budget, as a measure of the fiscal responsibility of the state government.

The medium-term fiscal policy provides institutional framework focused on the need for bringing down the fiscal deficit, containing the growth of public debt and improving the effectiveness of the government in the delivery of social and economic services. In such a situation, the government should define the parameters of its fiscal policy in the annual budget stating that the current policies are in conformity with the objectives of the medium-term fiscal plan. The object of the medium-term fiscal plan should include progressive reduction of the revenue deficit as a percentage of the total revenue receipts, reduction in the fiscal deficit as a percentage to the GDP and a projected growth in the yield from major taxes such as sales tax, excise duty, stamp and registration duty, motor vehicle tax, growth in the yield from non-tax revenue and through savings or expenditure compression. The key fiscal measures should explain the rationale for major deviations and measures pertaining to taxation, subsidies, expenditure, borrowings and administered prices. This document should provide a road-map for monitoring the progress of fiscal reforms.

Action Taken Report (ATR)

The preparation of Action Taken Report (ATR) is an important component of fiscal reforms. It is a report on the action taken on the policy decisions announced in the previous budget. This also helps to review and control trends in receipts and expenditure. The quarterly statement of receipts and expenditure of the state should be part of the budget. It is gratifying to note that the state is already taking action on both these measures. These financial controls are essential for fiscal reforms and budgetary management of the state.

Additional Resource Mobilisation

Himachal Pradesh, although a special category state, has a high per capita income of Rs. 18,920 (2001-02), yet it has not been able to enhance its income proportionately through effective enforcement of tax laws and by plugging leakages or doing away with or reducing unmerited subsidies. This situation calls for additional resource mobilisation in the Tenth Plan 2002-07. The nominal growth of revenue projected in the Tenth Plan resources by the state is inadequate. The revenue of this high per-capita income state, has the potential to go up between 15 per cent and 20 per cent per year to fulfil its aspiration of growth in the Tenth Plan.

It has, however, been contended by the representatives of the state that in recent years the growth in the yield from sales tax and state excise duty has been satisfactory and receipts from these two sources have reached a plateau.

The state has justifiably represented to the Central Government for the levy of power generation tax on hydropower generated in the state as a compensation for ecological and social stress on the state. This tax is expected to yield an income of Rs. 160 crore per year.

Income from the sale of the state's share of free power after completion of power projects is expected to yield about Rs. 400 crore per year by the end of the Tenth Plan 2002-07.

User Charges

User charges for drinking water, sewerage, higher education, medical education, technical education and secondary health service etc. will improve the quality and delivery of the services. Any free service ultimately degenerates into no-service.

The additional revenue generated from user charges should exclusively be earmarked for improving the quality of the service for which statutory rules should be framed. However, it should be ensured that minimum burden is cast on the poorer sections of society and steps taken to improve operating efficiency to reduce the cost, so that the consumer does not have to pay for the inefficiencies of the system.

Debt and Cash Management

The state is in a debt trap with a total debt of Rs. 14230 crore and every year interest payment takes away one third of its own revenue and grants from the Government of India. The debt stock of the Himachal Pradesh Government carries an interest liability which exceeds the total annual revenue income of the state. Therefore, a judicious restructuring of its debt is a pressing need to enable the State to come out of the severe debt trap.

The 'debt swap' scheme announced by the Government of India will enable the Himachal Pradesh Government to repay the high-cost debt and substitute it with the current low coupon rate small savings and open market loans. According to the scheme all state loans from the Government of India bearing coupon rates in excess of 13 per cent can be swapped with current average interest rate of 9.3 per cent. The state will thus save a substantial sum in interest over the residual maturity period of the loans. This will also restrain the future debt build-up of the states, particularly through small saving schemes, which are usually contracted at higher rates of interest.

Interest Payment for the Next Five Years

Interest payment in the next five years has been projected by the state as shown in Table 6.25.

These figures can undergo a change, as the rate of interest on borrowings is likely to be reduced to 9.3 per cent resulting in savings in interest payments on the debt of the state. In the memorandum to be submitted by the state to the Twelfth Finance Commission, a strong case should be made for rescheduling and reducing the debt burden of the state, as the projected interest payments are unsustainable.

TABLE 6.25

Interest Payment in the Next Five Years

(Rs. in crore at current prices)

2002-03	*2003-04*	*2004-05*	*2005-06*	*2006-07*
1391	1552	1778	1913	2244

Source: Tenth Plan Projections of Resources – HP Plan Documents.

Cash Management

As in the private sector, cash management is integral to expenditure management. Cash becomes available to the departments of the state from the budgetary ceiling on the passage of the Appropriation Bill by the legislature. The release of budgetary allocations in a phased manner to match the inflow of resources is important. This will avoid a mis-match between expenditure and receipts and substantially reduce temporary withdrawals from the Ways and Means cash facility provided by the RBI.

Surplus Staff and its Re-deployment

The Himachal Pradesh government should prepare a plan to rationalise the staff strength in the public sector undertakings (PSUs) as well as in government departments, as a part of fiscal reforms. Rules should be framed to regulate redeployment/readjustment of the surplus staff. The state should have a master 'manpower register' separately for its Departments and PSUs, which should comprise identified surplus staff. This will enable some staff to be shifted to a surplus pool for redeployment and will help the government in making a proper appraisal of the runaway wages and salaries bill of the state. As a fair estimate, about 20 per cent of the present staff strength including the HPSEB and other PSUs is likely to find place in the 'surplus pool'. Rules for re-deployment or re-adjustment should remain in force for five years. All employees still left in the surplus pool should be retired with compensatory pension under the amended civil services rules. It should follow that all future essential and unavoidable appointments are made on contract basis. With the cutting of the unwanted flab, a new pension scheme, based on defined contributions by the employees and the government, should be introduced so that the direct burden on the Consolidated Fund is progressively reduced. Pensions have already grown four times. This burden will progressively increase on the retirement of employees who have benefited from the revision of pay scales recommended by the Pay Commission. This restructuring is intended to achieve good fiscal housekeeping by eliminating and reducing the excessive expenditure on salaries and pensions on government and public sector employees. This will be justifiable only if the savings are directed towards development for the benefit of the community.

Summing up

The factors, which have adversely affected the state's financial scenario over the last ten years, are:

- high salaries and wage bill, mounting debt burden, heavily subsidised social and economic services, slow growth of revenue and loss-making public sector undertakings
- the state continues to rely on borrowings to finance its deficit and pubic debt is a convenient tool for raising resources
- the tax base in HP continues to be narrow and tax compliance is poor
- the ratio of own tax percentage to the GDP is consistently lower than that of the neighbouring states of Punjab and Haryana and six fast growing states
- high revenue expenditure with low resource mobilisation indicates the need for improving the tax ratio to the GDP

Immediate attention needs to be paid to correct the revenue/fiscal deficits and substantially reduce the public debt. Structural fiscal measures to achieve these goals are required to be taken without delay. These include:

- a three-year rolling budget for the sake of consistency and continuity
- the HP Fiscal Responsibility and Financial Management Act should be enacted to ensure long-term financial stability with caps on state borrowing, state guarantees and deficits
- Sinking Fund and Contingency Fund to cover loans and guarantees
- revision of 'user charges' for services like transport, drinking water, technical, medical, higher education and secondary and tertiary health care to improve the quality of the services

Other measures for improving fiscal health of the state include:

- strict enforcement of tax laws for higher yield from sales tax, excise duty, registration and stamp duty and motor vehicles tax.
- compression of non-plan and non-tax expenditure.
- enhancing the quality of public expenditure and governance.
- aggressive disinvestment in public sector undertakings.
- power sector reforms and improving the finances of the HPSEB by implementing fully the recommendations of the State Electricity Regulatory Commission.
- prudent sale of its 'share of free power' to enhance the revenue of the state.
- accessing the capital market for infrastructure development for tapping non-budgetary resources through bankable schemes.

• The budget for the year 2003-04 that the Chief Minister of Himachal Pradesh presented on 26 June 2003, has notable features aimed at reversing the trend of fiscal deterioration, improving rural infrastructure, strengthening the social sector and power sector reforms targeting better services and reducing commercial losses of the Himachal Pradesh State Electricity Board (HPSEB).

The government has made bold to take some tough measures including imposing fresh taxes amounting to Rs. 50 crore, though this does not make a large dent in the yawning deficit. It has also agreed to sign the MoU with the Centre to pave the way for economic reforms and fiscal restructuring. This will necessitate right-sizing of the administration and compressing expenditure, putting in place training programmes to improve skills of daily-wage workers and other employees rendered surplus for redeployment. The proposed VRS scheme is designed to downsize the government machinery.

The revenue deficit for 2003-04 is Rs. 1788.27 crore. The committed expenditure on salaries, interest payments and pensions has gone up by 33 per cent in a single year. Interest payments have been projected at Rs. 1669.20 crore during 2002-03. The Plan size has been reduced to Rs. 1335 crore by transferring about Rs. 800 crore to the Revenue Account. Transferring committed liabilities from Plan to Non-Plan and curtailing unproductive expenditure will reverse the trend of fiscal deterioration. The signing of MoU for economic reforms will result in the Government of India releasing Rs.750 crore it had blocked so-far for non-compliance with this requirement. Measures will, however, have to be taken to bring down the revenue and fiscal deficits and also the debt burden of the state.

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